

**INTERNATIONAL ACADEMY OF SAGINAW  
SAGINAW, MICHIGAN**

**FINANCIAL STATEMENTS  
June 30, 2008**

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

November 13, 2008

To the Board of Directors  
International Academy of Saginaw

We have audited the accompanying financial statements of the governmental activities of International Academy of Saginaw, as of and for the year ended June 30, 2008, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of International Academy of Saginaw's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the International Academy of Saginaw as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
International Academy of Saginaw  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2008, on our consideration of International Academy of Saginaw's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Gardner, Provencio, Schuman & Thomas*

Certified Public Accountants

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**INTERNATIONAL ACADEMY OF SAGINAW  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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## **Introduction**

This section of the annual financial report presents management's discussion and analysis of International Academy of Saginaw's financial results for the fiscal year ended June 30, 2008. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

## **Using This Report**

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (government-wide statements) and also in more detail (governmental fund statements) showing the year's activity by fund.

## **Academy Wide Financial Statements**

The Academy Wide Financial Statements appear first and report all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of activities covers all of the Academy's services including instruction and support services which are financed through Unrestricted State Aid and State and Federal grants. In addition, revenue less expense results in the change in net assets, which can either increase or decrease on an annual basis.

## **Fund Financial Statements**

The Fund Financial Statements are reported on a modified accrual basis and are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The Academy uses funds to help control and manage money for specific purposes or to meet legal responsibilities for certain grants. Funds provide a detailed short-term view of the operations and services of the Academy, show how money flows through and out of funds, and the balances left at year-end. Reviewing the funds helps the reader consider whether the Academy is accountable for the resources taxpayers and others provide and gives insight into the Academy's overall financial health.

The relationship between governmental activities (Academy Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

**INTERNATIONAL ACADEMY OF SAGINAW  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Condensed Financial Statements  
Analysis of Overall Financial Position and Results of Operations**

The table below provides a summary of the Academy's net assets as of June 30, 2008.

	<u>2008</u>
<b>Assets</b>	
Current and other assets	\$ 299,698
Capital assets - net of accumulated depreciation	<u>78,567</u>
Total assets	<u><u>378,265</u></u>
 <b>Liabilities</b>	
Current liabilities	<u>307,422</u>
Total liabilities	<u><u>307,422</u></u>
 <b>Net assets</b>	
Invested in capital assets	78,567
Unrestricted (deficit)	<u>(7,724)</u>
Total net assets	<u><u>\$ 70,843</u></u>

The Academy's net assets were \$70,843 at June 30, 2008. Capital assets, net of accumulated depreciation, totaling \$78,567 was computed by taking the original cost of the assets and subtracting the depreciation expense. The remaining amount of net assets (\$7,724) is unrestricted and represents the accumulation of the current years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

**INTERNATIONAL ACADEMY OF SAGINAW  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Analysis of Overall Financial Position and Results of Operations (cont.)**

The Academy's results of operations for the year ended June 30, 2008 are reported below.

	<u>2008</u>
Revenue	
Program revenue	
Grants and contributions	\$ 193,175
Charges for services	4,328
General revenue	
State foundation allowance	609,213
Other	662,923
Total revenue	<u>1,469,639</u>
Function/Program expenses	
Instruction	589,574
Support services	707,818
Food service	62,462
Interest on debt	38,942
Total expenses	<u>1,398,796</u>
Increase (decrease) in Net Assets	<u>\$ 70,843</u>

Funding for the above activities come from a variety of sources. Some activities are partially funded by those who benefit from the programs or by grants and categoricals from governments and organizations. The remaining activities are paid for by the State Foundation Allowance and other revenues such as donations from the management company and income from the extended day program.

**Budget Highlights**

International Academy of Saginaw's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, the start of the fiscal year. During the fiscal year ended June 30, 2008, the Academy amended the budget on December 3, 2007 and April 1, 2008.

	<u>Original</u>	<u>Final</u>	<u>Variance</u>	<u>Actual</u>	<u>Variance</u>
Total revenue	1,758,257	799,097	-120.03%	1,438,986	44.47%
Total expenditures	2,182,743	1,350,773	-61.59%	1,396,473	3.27%
Excess revenue/expenditures	<u>(424,486)</u>	<u>(551,676)</u>	<u>23.06%</u>	<u>42,513</u>	<u>1397.66%</u>

**INTERNATIONAL ACADEMY OF SAGINAW  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Budget Highlights (cont.)**

Changes to the original General Fund budget were as follows:

- When establishing the original 2007/08 revenue and expenditure budget in the spring of 2007 only estimates could be used, as the school had not yet officially opened. The major factor leading to the original versus final budget variance was a significant decrease in projected student enrollment. Once student enrollment materialized in the fall of 2007 new budgets were prepared so as to adjust for the budget variance. All revenue and expenditure amounts were materially decreased so as to accommodate the enrollment shortfall.

**Final vs. Actual Budget**

- Management believes that the final budget to actual results variances were not significant.

**Academy's Funds**

**General Fund**

The General Fund is the primary operating fund for the Academy. For fiscal year ending June 30, 2008, the fund increased by \$42,413. The increase in fund balance was due to the school's management company forgiving amounts owed to the management company totaling \$658,186.

**Food Service Fund**

The Academy maintained the school lunch program for the fiscal year. While various attempts were made to increase the utilization of the program, these efforts were not successful, resulting in a decrease on the food service fund balance of \$42,513.

**Capital Assets**

As of June 30, 2008, the Academy has \$78,567 in capital assets including computers and furniture and equipment, less depreciation.

	2008
Computers	\$ 10,401
Equipment and furniture	85,945
Less accumulated depreciation	(17,779)
Net capital assets	<u>\$ 78,567</u>

**INTERNATIONAL ACADEMY OF SAGINAW  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Conditions Affecting Next Year's Budget**

The State of Michigan's budget crisis will have a direct impact on funding for educational services. The 2008/09 State Foundation Grant was increased by \$105 per student compared to the 2007/08 school year. The revenue increase is not anticipated to cover the rising costs of operating the Academy. As with all schools across the state, making up for revenue shortfalls will have to be generated through fundraising, grant initiatives, and student recruitment. The Academy continues to enroll students and seek out other sources of revenue that will enable the Academy to continue to offer the educational programs that are currently being provided.

**Requests for Information**

This report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, 1944 Iowa Avenue, Saginaw, Michigan 48601.

## BASIC FINANCIAL STATEMENTS

INTERNATIONAL ACADEMY OF SAGINAW  
Academy Wide  
Statement of Net Assets  
June 30, 2008

	Governmental Activities
ASSETS	
Cash	\$ 181,828
Receivables	117,870
Capital assets less accumulated depreciation	<u>78,567</u>
Total Assets	<u>\$ 378,265</u>
LIABILITIES	
Current liabilities	
Accounts payable	46,879
Accrued liabilities	55,808
Deferred revenue	15,787
Due to management company	<u>188,948</u>
Total Liabilities	<u>307,422</u>
NET ASSETS	
Invested in capital assets	78,567
Unrestricted (deficit)	<u>(7,724)</u>
Total Net Assets	<u>\$ 70,843</u>

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL ACADEMY OF SAGINAW  
Academy Wide  
Statement of Activities  
For the Year Ended June 30, 2008

				Governmental Activities
				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Instruction	\$ 589,574	\$ -	\$ 166,851	\$ (422,723)
Support services	707,818	-	-	(707,818)
Food service	62,462	4,328	26,324	(31,810)
Interest on debt	38,942	-	-	(38,942)
Totals	<u>\$ 1,398,796</u>	<u>\$ 4,328</u>	<u>\$ 193,175</u>	<u>(1,201,293)</u>
General revenues:				
State aid - unrestricted				609,213
Other				662,923
Total General Revenues				<u>1,272,136</u>
Change in Net Assets				70,843
Net Assets - Beginning of Year				-
Net Assets - End of Year				<u>\$ 70,843</u>

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL ACADEMY OF SAGINAW  
Governmental Funds  
Balance Sheet  
June 30, 2008

	<u>General Fund</u>	<u>Food Service</u>	<u>Totals</u> <u>(Memorandum Only)</u>
<u>Assets</u>			
Cash	\$ 181,828	\$ -	\$ 181,828
Due from other governmental units	117,630	-	117,630
Accounts receivable	240	-	240
Due from other funds	42,513	-	42,513
Total Assets	<u>\$ 342,211</u>	<u>\$ -</u>	<u>\$ 342,211</u>
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accounts payable	\$ 46,880	\$ -	\$ 46,880
Accrued expenditures	48,083	-	48,083
Due to other funds	-	42,513	42,513
Deferred revenue	15,787	-	15,787
Due to management company	188,948	-	188,948
Total Liabilities	<u>299,698</u>	<u>42,513</u>	<u>342,211</u>
<u>Fund Balance</u>			
Unreserved and undesignated (deficit)	42,513	(42,513)	-
Total Fund Balance	42,513	(42,513)	-
Total Liabilities and Fund Balance	<u>\$ 342,211</u>	<u>\$ -</u>	<u>\$ 342,211</u>

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL ACADEMY OF SAGINAW  
Reconciliation of Balance Sheet of Governmental Funds to Net Assets  
June 30, 2008

Total Fund Balances - Governmental Funds	\$ -
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets are:	96,346
Accumulated depreciation is:	(17,779)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences	<u>(7,724)</u>
Total Net Assets - Governmental Activities (Academy Wide)	<u><u>\$ 70,843</u></u>

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL ACADEMY OF SAGINAW  
Governmental Funds  
Statement of Revenue, Expenses, and Changes in Fund Balances  
For the Year Ended June 30, 2008

	General	Food Service	Totals (Memorandum Only)
Revenue			
Local	\$ 662,922	\$ 4,328	\$ 667,250
State	623,564	-	623,564
Federal	152,500	26,324	178,824
Total revenue	<u>1,438,986</u>	<u>30,652</u>	<u>1,469,638</u>
Expenditures			
Instruction			
Basic programs	610,622	-	610,622
Special education	32,774	-	32,774
Support Services			
Pupil services	2,137	-	2,137
School administration	239,808	-	239,808
General administration	246,868	-	246,868
Operation and maintenance	225,322	-	225,322
Debt service	38,942	-	38,942
Food service	-	73,165	73,165
Total expenditures	<u>1,396,473</u>	<u>73,165</u>	<u>1,469,638</u>
Excess (Deficiency) of revenues over expenditures	42,513	(42,513)	-
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, Ending (deficit)	<u>\$ 42,513</u>	<u>\$ (42,513)</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL ACADEMY OF SAGINAW  
Reconciliation of Balance Sheet of Governmental Funds to Net Assets  
June 30, 2008

Total Fund Balances - Governmental Funds	\$ -
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets are:	96,346
Accumulated depreciation is:	(17,779)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences	<u>(7,724)</u>
Total Net Assets - Governmental Activities (Academy Wide)	<u><u>\$ 70,843</u></u>

The accompanying notes are an integral part of these financial statements.

## INTERNATIONAL ACADEMY OF SAGINAW NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1--Summary of Significant Accounting Policies

International Academy of Saginaw was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 2007, the Academy entered into an eight-year contract with Bay Mills Community College to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Bay Mills Community College Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Bay Mills Community College Board of Trustees three percent of state aid as administrative fees. The total administrative fees incurred to the Bay Mills Community College Board of Trustees for the year ended June 30, 2008, was \$19,166.

### Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

### B. Academy-Wide Statements

The statement of net assets and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore reconciliation is included to identify the relationship between the Academy-wide statements and the statements for the governmental funds.

INTERNATIONAL ACADEMY OF SAGINAW  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements (continued)

The Academy-wide statement of activities presents a comparison between program expenses and program revenues; revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy.

The Academy-wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The Special Revenue Fund maintained by the Academy is the Food Service Fund. The Food Service Fund is intended to be self-supporting; however, this year there was a deficit in that fund.

INTERNATIONAL ACADEMY OF SAGINAW  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible within the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the Fund Level statements.

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

INTERNATIONAL ACADEMY OF SAGINAW  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets.

Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Computers	3 years
Furniture and equipment	5-7 years

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Expenses

Accrued expenses consist of wages, benefits, and payroll taxes owed to the Academy's employees at the end of the fiscal year.

Due to Management Company

Due to Management Company consists of amounts loaned by the management company to the Academy for cash flow purposes, building rental, and management and licensing fees that are due and payable for the current fiscal year.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received, but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

INTERNATIONAL ACADEMY OF SAGINAW  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Inter-fund Activity

Inter-fund activity is reported as transfers and is eliminated upon consolidation.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund budget by activity for the year ended June 30, 2008. State law requires the Academy to have its budget in place before July 1. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors. State law permits Academies to amend their budgets during the year. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law.

The Academy's expenditure budget variances are illustrated in the required supplemental information.

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

INTERNATIONAL ACADEMY OF SAGINAW  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments

As of year-end, the carrying amount of the Academy deposits was \$181,828 and the bank balance was \$193,429. Of the bank balance, \$100,000 was covered by federal depository insurance and \$93,429 was uninsured and un-collateralized. The Academy has not adopted an investment policy and does not hold any investments.

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 1, 2008</u>
Capital assets subject depreciation				
Computers	\$ -	\$ 10,401	\$ -	\$ 10,401
Equipment and furniture	-	85,945	-	85,945
Total Capital Assets	<u>-</u>	<u>96,346</u>	<u>-</u>	<u>96,346</u>
Accumulated depreciation				
Computers	-	3,484	-	3,484
Equipment and furniture	-	14,295	-	14,295
Total Accumulated Depreciation	<u>-</u>	<u>17,779</u>	<u>-</u>	<u>17,779</u>
Total Net Capital Assets	<u>\$ -</u>	<u>\$ 78,567</u>	<u>\$ -</u>	<u>\$ 78,567</u>

Depreciation totaling \$17,779 has been allocated to instruction (\$11,593), support services (\$3,511), and food services (\$2,675).

NOTE 5--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 6--Management Contract

The Academy has entered into a management agreement with SABIS Educational Systems, Inc., a for-profit company. The management company provides the Academy with management and executive administration, fiscal services, and curriculum services.

# INTERNATIONAL ACADEMY OF SAGINAW NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6--Management Contract (continued)

The management company provides the Academy with the use of SABIS proprietary pedagogical materials and systems for its students. The Academy pays a licensing fee of 6% of State aid to the management company for use of the SABIS system. Licensing fees expensed by the Academy for the year ended June 30, 2008 was \$37,184.

Management fees are calculated based 8% of the State aid received by the Academy. Management fees expensed by the Academy for the year ended June 30, 2008 were \$49,579. The Academy also leases its school building from the management company. The lease agreement began in September 2007 and ends June 30, 2012. The lease agreement calls for monthly rental payments of \$10,833. The amount expensed for lease payments totaled \$108,333 for the year ended June 30, 2008.

## NOTE 7--Due to Management Company

The Academy owed SABIS Educational Systems, Inc. \$188,948 at June 30, 2008. The amounts owed to the management company are summarized below:

	Balance June 30, 2008
School building lease	\$ 108,333
Licensing fees	37,184
Management fees	15,789
Interest on cash advances	16,809
Interest on unpaid building lease payments	10,833
Total due to management company	<u>\$ 188,948</u>

## NOTE 8--Total Columns

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to consolidation.

## NOTE 9--Inter-Fund Activity

The makeup of inter-fund activity is as follows:

<u>Due to:</u>		<u>Due from:</u>	
General fund	\$ 42,513	Food service	\$ 42,513
Total	<u>\$ 42,513</u>	Total	<u>\$ 42,513</u>

The amount due to the general fund from the food service fund is due to the general fund subsidizing the food service fund.

## **REQUIRED SUPPLEMENTAL INFORMATION**

INTERNATIONAL ACADEMY OF SAGINAW  
Budgetary Comparison  
For the Year Ended June 30, 2008

	General Fund				Food Service		
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Variance
Revenue							
Local	\$ 2,000	\$ 3,722	\$ 662,922	\$ 659,200	\$ -	\$ 10,725	\$ 4,328
State	1,606,257	635,375	623,564	(11,811)	-	-	-
Federal	150,000	160,000	152,500	(7,500)	-	24,738	26,324
Total revenue	<u>1,758,257</u>	<u>799,097</u>	<u>1,438,986</u>	<u>639,889</u>	<u>-</u>	<u>35,463</u>	<u>30,652</u>
Instruction							
Basic programs	1,332,011	749,332	610,622	138,710	-	-	-
Special education	20,000	11,330	32,774	(21,444)	-	-	-
Support Services							
Pupil services	-	3,666	2,137	1,529	-	-	-
School administration	-	165,270	239,808	(74,538)	-	-	-
General administration	151,609	174,466	246,868	(72,402)	-	-	-
Operation and maintenance	679,123	246,709	225,322	21,387	-	-	-
Debt service	-	-	38,942	(38,942)	-	-	-
Food service	-	-	-	-	2,500	83,007	73,165
Total expenditures	<u>2,182,743</u>	<u>1,350,773</u>	<u>1,396,473</u>	<u>(45,700)</u>	<u>2,500</u>	<u>83,007</u>	<u>73,165</u>
Excess (Deficiency) of revenues over expenditures	(424,486)	(551,676)	42,513	594,189	(2,500)	(47,544)	5,031
Fund Balance - Beginning of Year	-	-	-	-	-	-	-
Fund Balance - End of Year	<u>\$ (424,486)</u>	<u>\$ (551,676)</u>	<u>\$ 42,513</u>	<u>\$ 594,189</u>	<u>\$ (2,500)</u>	<u>\$ (47,544)</u>	<u>\$ 5,031</u>

## ADDITIONAL SUPPLEMENTAL INFORMATION



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 13, 2008

To the Board of Directors  
International Academy of Saginaw

We have audited the financial statements of the governmental activities of International Academy of Saginaw as of and for the year ended June 30, 2008, which comprise International Academy of Saginaw's basic financial statements, and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered International Academy of Saginaw's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the International Academy of Saginaw's internal control over financial. Accordingly, we do not express an opinion on the effectiveness of International Academy of Saginaw's internal control over financial reporting.

To the Board of Directors  
International Academy of Saginaw  
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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects International Academy of Saginaw's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of International Academy of Saginaw's financial statements that is more than inconsequential will not be prevented or detected by International Academy of Saginaw's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by International Academy of Saginaw's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting as items 2008-1, 2008-2, and 2008-3.

### **Compliance**

As part of obtaining reasonable assurance about whether International Academy of Saginaw's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2008-4, 2008-5, 2008-6, and 2008-7.

We noted certain matters that we reported to management of International Academy of Saginaw, in a separate letter dated October 9, 2008.

To the Board of Directors  
International Academy of Saginaw  
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International Academy of Saginaw's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit International Academy's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Barbara Provenzano, Schuman & Thomas*

Certified Public Accountants

INTERNATIONAL ACADEMY OF SAGINAW  
Schedule of Findings and Responses  
June 30, 2008

<u>Finding</u>		<u>Effect on Fund balance</u>
2008-1	Capital outlay expenditures recorded as assets.	\$ (93,596)
2008-2	Depreciation expense recorded on capital assets.	\$ 17,229
2008-3	Compensated absences accrued at 6/30/08.	\$ 7,724
2008-4	In violation of Michigan law, the fiscal 2008 budget was not adopted by the board prior to July 1, 2007.	
2008-5	In violation of Michigan law, the fiscal 2008 budget resulted in a general fund balance deficit.	
2008-6	In violation of Michigan law, the fiscal 2009 budget was not adopted by the board prior to July 1, 2008.	
2008-7	In violation of Michigan law, the fiscal 2009 budget resulted in a general fund balance deficit.	
<u>Response</u>		
2008-1	In lieu of management not being aware of its requirement to maintain its accounting records in accordance with the Michigan Public School Accounting Manual, the accounting records were maintained on the full accrual basis of accounting. This resulted in capital assets being recorded. The school will ensure this oversight is corrected going forward.	
2008-2	In lieu of management not being aware of its requirement to maintain its accounting records in accordance with the Michigan Public School Accounting Manual, the accounting records were maintained on the full accrual basis of accounting. This resulted in accumulated depreciation being recorded. The school will ensure this oversight is corrected going forward.	
2008-3	In lieu of management not being aware of its requirement to maintain its accounting records in accordance with the Michigan Public School Accounting Manual, the accounting records were maintained on the full accrual basis of accounting. This resulted in compensated absences being recorded. The school will ensure this oversight is corrected going forward.	
2008-4	Management is aware that the board minutes do not reflect official ratification of the 2008 annual budget prior to the due dates even though the budgets were submitted for approval in April of 2007. The Academy will ensure going forward that budget approval guidelines are adhered to as required by Public Act 621.	
2008-5	In lieu of management not being aware of the statutory prohibition of adopting a deficit budget, a deficit budget was approved for the 2007/08 fiscal year. The Academy will ensure going forward that all budgets approved will not result in a negative equity position.	
2008-6	Management is aware that the board minutes do not reflect official ratification of the 2008 annual budget prior to the due dates even though the budgets were submitted for approval in April of 2008. The Academy will ensure going forward that the budget approval guidelines are adhered to as required by Public Act 621.	
2008-7	In lieu of management not being aware of the statutory prohibition of adopting a deficit budget, a deficit budget was approved for the 2008/09 fiscal year. The Academy will ensure going forward that all budgets approved will not result in a negative equity position.	